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THE UNIVERSITY OF ALBERTA

U.S. FOREIGN POLICY IN THE COLD WAR:

A CONSIDERATION OF SOME ECONOMIC INFLUENCES

(C) HARVEY MANSON

A THESIS

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The undersigned certify that they have read, and recommend
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submitted by HARVEY MANSON

in partial fulfilment of the requirements for the degree of
Master of ARTS

TO

MY PARENTS

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ABSTRACT

This thesis represents an attempt to give proper emphasis to the importance of economic factors in foreign policy, and more specifically, to the part such factors have played in helping to crystallize and perpetuate the Cold War.

The tools of economic diplomacy or foreign economic policy are first set out and discussed. Then, with specific reference to the U.S.A.'s capacity and predilection for the utilization of such policy, the economic diplomacy of the early Cold War period is considered, and an attempt is made to demonstrate the unity of purpose of U.S. foreign economic policy and general U.S. foreign policy in the period under discussion.

Further, this thesis seeks to demonstrate the existence of a systemic need of U.S. society for the Cold War. The fact that the Cold War has become America's economic stabilizer, as well as national purpose, is examined for its consequences for future American foreign policy. In particular, the domestic economic factors involved in the U.S.A.'s Cold War commitment are given due consideration with a view to determining the strength of this commitment and to weighing the possibility of a future renunciation by the U.S.A. of such a policy line.

Finally, this thesis seeks to evaluate U.S. use of foreign

economic policy in the early postwar period, and the extent to which domestic economic factors have conditioned U.S. foreign policy in the total period since World War II.

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INTRODUCTION

In a way, this thesis is a plea that the study of international relations would be more meaningful when viewed as international political economy. "The illusion of a separation of politics from economics--¹ a belated legacy of the laissez-faire nineteenth century", further enhanced in recent times by the artificiality of boundaries set by academic disciplines, has ceased to correspond to any aspect of current reality. Two world wars, and now the Cold War, have so overtly demonstrated the interaction of politics and economics that today the political authority of the state over the economic life of its citizens is taken for granted.

Yet this separation, this tendency to regard the political and economic spheres as separate entities, has continued to exist in current thought about international relations. This is not to imply, however, that at the present time the discipline of International Relations denies that economic interaction between states falls within its core of theoretical concerns; clearly it does not, as even the most cursory perusal of introductory text-books on the subject would demonstrate.²

¹ E.H. Carr, The Twenty Years Crisis, 1919-1939, An Introduction to the Study of International Relations (London: MacMillan & Co. Ltd., 1962), p. 117.

² E.R. Platig, "International Relations as a Field of Enquiry", in

The point, however, is that although most international relations specialists have at least a nodding acquaintance with basic economic concepts; reaction to 'Marxist' analysis and the very emphasis, or vogue, presently enjoyed by the application of the psychological and social-psychological approaches to the understanding of international interaction³ has caused many academic international relations practitioners, and especially American ones, to be seriously negligent in affording recognition and ranking to the part played by economic factors in their analyses of contemporary events.

Nowhere is this tendency more apparent than in the sub-division of International Relations that deals with foreign policy analysis; and particularly in the plethora of books and articles that have been published dealing with the many facets of the Cold War. This study finds its raison d'être as a result of this neglect. Herein, the Cold War will be discussed from an economic perspective. Although it is not claimed that the economist's eye sees the whole truth, it is hoped that the addition of such an economic perspective to the body of existing literature on the Cold War will at least contribute to the better understanding of a heretofore inadequately considered dimension of that conflict.

This study is not, however, intended to be a general economic

International Politics and Foreign Policy, A Reader in Research and Theory, ed. by J.N. Rosenau (New York: The Free Press, 1969), p. 16.

³ See B.M. Russet, ed. Economic Theories of International Politics (Chicago: Markham Publishing Company, 1968), p. 2.

history of the Cold War; it is a work in foreign policy analysis. It sheds light on economic factors linked with the origins of that conflict only in so far as

- (1) it seeks to demonstrate the relationship of U.S. foreign economic policy to the general foreign policy goals of the U.S.A. in the early Cold War period, and in so far as
- (2) it explains how domestic sources of U.S. foreign policy, and especially economic factors, have succeeded in institutionalizing the Cold War, and making it, at least in the short run, a systemic need of U.S. society.

In illustrating the interplay of foreign economic policy and general foreign policy in the context of the U.S.A.'s early Cold War initiatives, it is hoped that this thesis will provide the reader with some much needed clarification on the subtlety and reach of economic tools in foreign affairs, and a proper indication of the extent to which such tools have been utilized in support of both U.S. foreign and domestic policies. Similarly, in the part of this thesis that seeks to demonstrate a systemic need of U.S. society for the Cold War, and sets out the extensive macro-economic and socio-political pressures that have created such a need, it is hoped the reader will gain greater awareness of the difficulties that beset U.S. decision makers in initiating and pursuing a genuine policy designed to bring about East-West détente, and an end to the Cold War.

CHAPTER I

FOREIGN ECONOMIC POLICY:- A TOOL OF STATECRAFT

Foreign economic policy, although more often discussed under the separate titles of Commercial and Foreign Aid policy, has of late received considerable attention because of its obvious capacity for producing system change.¹ However, beyond the mere recognition that such a policy must be viewed as "a technique of statecraft,"² political scientists have not as yet devoted much serious thought to the development of a framework of analysis "that would permit discussions of the allocation of scarce economic resources in support of power relations,"³ and a nation's general foreign policy. As this thesis seeks in part to demonstrate the relationship existent between U.S. foreign economic policy and its general foreign policy goals in the early Cold War period, it is necessary to go some way toward rectifying that omission.

¹G.R. Winham maintains that examples of foreign economic policy producing system change "abound in recent history". Apart from medical and food aid to India and Latin America, which has had a profound social effect, programs like Marshall Aid to Europe and Russian aid to Cuba "have restored or maintained the viability of nations that play leading roles in Cold War politics." See G.R. Winham, "Developing Theories of Foreign Policy Making, A Case Study of Foreign Aid", Journal of Politics, XXXII (February, 1970), fn. 41. Also J.D. Montgomery, The Politics of Foreign Aid (New York: F.A. Praeger, 1962), pp. 276-277.

²D.A. Baldwin, Foreign Aid and American Foreign Policy, A Documentary Analysis (New York: F.A. Praeger, 1966), p. 3.

³B.J. Cohen, ed., American Foreign Economic Policy Essays and Comments (New York: Harper & Row, 1968), p. 1.

Two areas of foreign economic policy must be distinguished if confusion is to be avoided in defining such a term. Most states have a foreign economic policy in the sense of a preconceived notion of how best to encourage domestic economic growth by involvement in international trade. For some states seeking thus to enhance their national wealth, this is manifest as a movement towards more liberal international relations,⁴ in order to find new and more profitable outlets for capital investment and finished goods. In other states, foreign economic policy means the use of autarchic and protectionist methods that seek to ensure a measure of self sufficiency and protection for infant industries. Clearly, most nations, whether industrial or not, place some restrictions or burdens on imports, usually by levying customs duties (tariffs) and sometimes by imposing quotas. Perhaps the most common reason for this is the clamour of certain domestic industries for protection from foreign competition, and the need to hold down imports so as to avoid disruptive deficits in a country's balance of payments. In addition, foreign economic policy can be dictated by national security considerations. In this regard, the problem for the makers of foreign economic policy is "to provide maximum support for the chosen strategy of the state's general foreign policy."⁵ The possibility for political influence through economic means is based on the system of international

⁴This aspect of U.S. foreign economic policy was well developed even from 1800. See H.B. Westerfield, The Instruments of America's Foreign Policy (New York: T.Y. Cromwell Co., 1963), pp. 18-19.

⁵Cohen, op. cit., p. 10.

trading relationships which makes every nation to a greater or lesser extent dependent on some or all of the others. The power to interrupt commercial or financial relations with any country, considered as an attribute of national sovereignty, can be viewed as one of the means of influence or power which one country acquires in another. Used as such, foreign economic policy can no longer be viewed as an area of economic policy per se, but as an area in which economic policies are used as instruments to pursue political and security ends. It is in this latter sense that the term foreign economic policy is used in this thesis.

These two strands of foreign economic policy, the one seeking to maximize national wealth and the other national security, though seemingly quite distinct, cannot, however, be meaningfully separated. Clearly, the range of foreign economic policy choices a nation can utilize in support of national security, is limited by its economic strength. Though it is possible for a nation's foreign economic policy to jointly pursue goals aimed at maximizing national wealth and national security, it is not necessary that these goals be complementary. Indeed, at times they will clearly be in conflict, and a nation will be obliged to arrive at a 'trade off' between the two. In recent years it would appear that the U.S. has made such a choice, and has "willingly sacrificed a good part of its influence in Western Europe by promoting regional integration" expecting thereby that Western security vis-à-vis the Soviet Union would be enhanced.⁶ Similarly the U.S.S.R. in

⁶Cohen, ibid., p. 14.

refusing to join the Marshall Plan was not in the short run concerned with enhancing economic power, but in enhancing national security.

In the U.S.A., foreign economic policy has been given variable emphasis not only as international conditions have changed, but as United States economic strength has varied and different councils have prevailed at the high policy making levels of Government. In the early 1920's, though the American Government itself did not believe in overt control over the tools of foreign economic policy,⁷ it was nevertheless evident that a foreign economic policy was being used to forward American political and security ends. Feis has stated:

The chief American investment houses and banks were asked to inform the State Department in advance of all contemplated foreign transactions and await its judgement before acting. Functionaries in the State and Commerce Departments--in touch with the Treasury--watched, sometimes questioned, and now and again let it be known that they liked or disliked a proposed deal. In this confidential consultation the American Government stayed behind a screen from whence were wafted like spirit messages its opinions about foreign loans and investments.⁸

American private capital investment in China, the Caribbean and Latin America was at that time considerable. The United States Government gave its support to such investment, not just "because of the belief that there would be gain both to the American people and the people of such areas", but also "to reduce or to exclude thereby the actual or

⁷Indeed, Secretary of State Charles E. Hughes stated on August 1, 1923: "It is not the policy of our Government to make loans to other Governments, and the needed capital if it is to be supplied at all, must be furnished by private organizations. . . ." As cited in H. Feis, Foreign Aid and Foreign Policy (New York: Dell Publishing Co., 1964), p. 42.

⁸Feis, ibid., p. 42.

potential political influence of other powers, and, if possible, to assure American political predominance", in these areas.⁹

In Europe after World War I American capital helped start Germany on the road to economic recovery, and also became heavily engaged in the multitude of states into which the former Austrian-Hungarian Empire had been divided. These transactions were at the time thought not only to be financially sound, but a contribution towards the prosperity and stability of Europe and the world. Measures taken to assist, "(t)he war-damaged and socially disturbed countries of Western Europe . . . in their crawl back toward economic health", were also taken with a view to "checking the intrusion of Communism."¹⁰

By the 1930's, however, American pursuit of political tranquility by the use of economic means came to an end. As the economic depression spread and worsened, as Europe fell back into political turmoil, and the Governments of East Europe and Latin America either went bankrupt or defaulted on their American loans, America once again became isolationist. Foreign economic policy thus receded into the depths to await both the resurgence of American economic strength and new foreign policy goals to underpin.

But even if the use of foreign economic policy is subject to the various caprices of foreign policy orientation, national economic

⁹ J. Viner, International Economics (Glencoe: The Free Press, 1951), p. 346.

¹⁰ Feis, op. cit., p. 46.

strength and administrative preference, the problem facing decision makers in using foreign economic policy has, and always will be, constant. It is as Cohen has rightly pointed out:

to sacrifice as little power as possible, since power cannot be foregone without limit if national survival is to be ensured, and to sacrifice as little wealth as possible, since wealth cannot be foregone without limit if the disposition of power is to be effective.¹¹

In the discussion of the tools of foreign economic policy to which we must now turn it will be useful to bear the above axiom in mind. A nation seeking to achieve political and security ends by economic means must, if it is to be effective in both the long and the short run, seek to design its policies not only to maximize national power (that is, its influence over other nations), but must forge them so as to replenish or even add to the economic wealth dissipated or foregone in such pursuits.

General agreement exists among economists and political scientists that foreign economic policy has at its disposal four tools or sub-policies; namely, foreign aid policy, commercial policy, international payments policy and foreign investment policy. For the sake of completeness each of these will be examined and United States use of such policies will be indicated. This does not mean to imply, however, that all the policies defined and outlined here have been utilized to an equal extent in recent American foreign economic policy, or that this was the case in the early Cold War period.

¹¹Cohen, op. cit., p. 16.

Clearly, foreign aid policy is "a major instrument of U.S. foreign policy"¹² and was so even in the early days of the Cold War. U.S. foreign aid operations have been presented and administered as actions that would simultaneously safeguard United States security and promote the general economic welfare. "By 1950 accumulated actions on these grounds had reached the point at which the United States was allocating, or planning to allocate, some proportion of its economic resources, in some form or another, to nearly every non-Communist state in the world,"¹³ and the value of foreign aid (including military grants) to these countries in the years 1946-50 amounted to 27.7 billion dollars in 1947 prices.¹⁴

Although it is undoubtedly true that economic gains from foreign aid accrue to the recipient, foreign aid has marked economic, and not just political, results for the donor country. Lend-Lease and the Marshall Plan not only aided the recipient countries economically; it gave direct stimulus to the economy of the U.S.A. D.E. Bell has stated:

¹²J.M. Nelson, Aid, Influence, and Foreign Policy (New York: The MacMillan Co., 1968), p. 1. Although no group of Governmental actions is formally designated as the "Foreign Aid policy" or "Foreign Aid Program" such terms persist and have been used loosely to refer to a variety of economic, military, technical, and humanitarian activities. See also R.E. Asher, Grants, Loans, and Local Currencies, Their Role in Foreign Aid (Washington, D.C.: The Brookings Institution, 1961), p. 3.

¹³W. Reitzel, M.A. Kaplan and C.G. Coblenz, United States Foreign Policy 1945-1955 (Washington, D.C.: The Brookings Institution, 1956), pp. 376-377.

¹⁴Ibid., p. 379.

In the early years of the U.S. Foreign Aid program after World War II, during the Marshall Plan and most of the 1950's, our aid appropriations were, in general, spent wherever in the world prices were lowest. During the Marshall Plan period, of course, the United States was the only major source in the world for most of the goods those countries needed. Therefore, most of the aid dollars, though not tied to U.S. procurement, were spent in this country.¹⁵

By 1959, however, when the revived European economies became increasingly effective competitors for U.S. aided purchases, U.S. foreign aid became tied to procurement in the U.S.A.¹⁶ Bell, writing on the situation in 1963, further commented, ". . . (t)he restriction of Foreign Aid spending to U.S. goods and services means that a substantial share of U.S. exports in some lines is now financed by our Foreign Aid program." In the calender year 1962 for example, "one-third of U.S. exports of locomotives, one-third of U.S. exports of fertilizer and twenty-one percent of U.S. exports of iron and steel products were among the commodities purchased under the Foreign Aid program. . . ."¹⁷

Turning now to consider commercial policy we should note that it "represents the sum total of actions by the State intended to affect the extent, composition and direction of its imports and exports of goods and services."¹⁸ Used in either a negative or positive way subsidies, tariffs, quotas, exchange control and procurement policies have

¹⁵

Foreign Assistance Act of 1965, Hearings before the House Committee on Foreign Affairs, 89th Congress, 1st Session (Washington, D.C.: Government Printing Office, 1965), pp. 1277-1281.

¹⁶

D.E. Bell, "The Impact of Foreign Aid on the American Economy", Department of State Bulletin, XLIX (November 25, 1963), 830-831.

¹⁷

Ibid., p. 189.

¹⁸

Cohen, op. cit., p. 20.

been made to serve political ends. American bilateral and multilateral trade agreements since the war embodying Most-Favoured-Nation treatment clauses have helped to divide the world into two rival economic blocs. The large measure of collaboration that the U.S. Government has secured from countries it has been aiding in the enforcement of export controls directed at the Soviet countries has further underlined this division. At the same time the reduction of tariffs that has gone hand in hand with American discriminatory trade policies against Soviet countries has been harnessed to promote U.S. exports. In tariff reductions under the General Agreement on Tariffs and Trade (GATT) the U.S.A. has made sure its concessions are weighed against those it has secured. Indeed, the State Department has defended "its record in GATT negotiations by observing that we get more than we give and that our concessions go into force gradually while other countries implement theirs at once. At one point, it proudly asserted that:

. . . United States concessions include to an exceptional degree concessions on relatively large trade items on which the duty is not a major factor in determining the level of imports and where the concession is far smaller than the value of the trade alone would indicate. . . . Our concession (on copper) consists only in agreement to reduce by 15 per cent, in three annual installments, a two-cent-per-pound import tax which is now suspended by United States domestic law, and then only under favourable price conditions . . . this concession may never become operative at all.¹⁹

International payments and foreign investment policies must be

¹⁹P.B. Kenen, Giant Among Nations, Problems in United States Foreign Economic Policy (Chicago: Rand McNally & Co., 1963), p. 57.

seen as adjuncts to the foreign aid and commercial policies already discussed. The extension of balance of payments support and credit facilities to deficit countries through international monetary institutions, and by the direct investment of one country in another, has done much to formalize the exchange of economic advantage for political rewards.

United States activity has been particularly evident in both of these policy areas in the postwar world. In the arrangements made at Bretton Woods for the setting up of the International Monetary Fund (IMF) and the World Bank, the U.S.A. took full advantage of the opportunity not only to dominate permanently the voting procedure in these organizations but to supply "Europe with credit to purchase U.S. exports."²⁰ At the same time, by ensuring that gold remained as a means of international payment, the United States "firmly grounded the power-system of international finance upon the buttress of its gold."²¹

United States foreign investment policy has also displayed political as well as economic motivation.²² In the post World War II period,

²⁰M. Hudson, "Epitaph for Bretton Woods", Journal of International Affairs, XXIII (1969), 272. As the voting power of each member of the IMF is in direct proportion to the amount of that member's contribution, the U.S.A. by virtue of being the largest contributor has the largest vote (40 per cent).

²¹Ibid., p. 267. As the U.S.A. held 59 per cent of world gold resources in 1945 and was to increase its share to 72 per cent by 1948, this was clearly a case of economic self interest.

²²It should be noted, however, that there are political aspects to U.S. private foreign investment "not because it is motivated by foreign policy considerations, but because foreign countries are concerned about its impact on their economic and foreign policies." This is hardly surprising when we consider that in 1964 the outflow of private capital from the U.S.A. was 6.5 billion dollars and the gross value of production of American countries abroad was well in excess of one hundred billion dollars a year. See L. Model, "The Politics of Private Foreign

once Americans had dissipated their Great Depression phobias, United States private direct investments began to be attracted by the increased profitability and market penetration that would be possible if American companies produced in Europe. Direct investment, as much as Lend-Lease, Marshall Aid and American military expenditures, has stimulated the phenomenal postwar recovery of the Western European countries. Also, American direct investment in recent years has taken some of the 'strain' off the American balance of payments, which since the late 1950's has been fighting the effects of the reversal of the 'dollar shortage' to 'dollar glut'.²³

Investment", Foreign Affairs, XLV (July, 1967), 639-641.

23 'Dollar shortage' is the condition of too few dollars in the hands of prospective purchasers of U.S. goods, 'dollar glut', the converse condition. Too few dollars in the hands of overseas customers acts as a constraint on U.S. exports, too many can act as a destabilizing influence on the international value of the dollar.

CHAPTER II

U.S. FOREIGN ECONOMIC POLICY AND THE ORIGINS OF THE COLD WAR

Having defined foreign economic policy and demonstrated its relationship both to foreign policy in general, and to American foreign policy in particular, it is now possible to consider its use in support of U.S. foreign policy goals in the early post-1945 period, and evaluate the part economic factors have played in the Cold War. In doing so, however, it should be remembered that attempts to pinpoint both the chronological origins and historical causes of the Cold War must in essence be arbitrary.¹ Existing studies of the Cold War seem to reflect this view. L.J. Halle, although he deals with antecedents of the Cold War that go back as far as the ninth century, fixes its beginning with Moscow's decision to oppose the Marshall Plan in June, 1947.² Yet another starting point is to be found in the work of Desmond Donnelly, who dates the Cold War from the middle of the nineteenth century, when the principal Atlantic powers were already engaged in a political

¹The evaluation of historical data and its ordering into 'reality' can be no more than the personal vision of the analyst responsible. The prominence with which each element in such a vision is placed cannot be accomplished by any scientific process. Each person involved in composing a picture of the Cold War will do so according to his own antecedent vision of that phenomenon. For some, ideologies may be more or less important, for others "economic considerations or the appetite for power" may be paramount. See L.J. Halle, "A Multitude of Cold Wars", International Journal, XXIII (Summer, 1968), 335-339.

²L.J. Halle, The Cold War as History (London: Chatto & Windus, 1967), pp. 135-136.

struggle to contain Russian expansion.³ Danna Fleming and Frederick L. Schuman, on the other hand, trace the start of the Cold War to 1917-18 when the Bolshevik state was born and when France, Britain and the United States intervened in support of the White Russians.⁴ Schuman has written,

At all events, what we have long been calling the 'Cold War' did not begin in 1945, in the aftermath of World War II and of the Yalta and Potsdam conferences. In a broader sense it began with the second Russian Revolution of 1917. . . . Within ten months after Russia's October Revolution, Soviet Russia and the West were at war, and the war was not a cold war but a hot war, marked by many casualties and vast destruction. Be it remembered, lest we forget what the Russians never forget, that this war was not started by Communists sending armies against the West, but by the West sending armies against Soviet Russia. . . . The legacy of mutual fear and suspicion and hatred which nourished the Cold War of the 1940's and '50's originated in the hot war between East and West in 1918-21.

But not only are different opinions regarding the actual starting date of the Cold War apparent in the literature; it is clear also that there is considerable divergence of view with regard to its causes. There is in effect "an understandable temptation to select one dominating aspect of the conflict as its central meaning."⁶ For some writers the Cold War is a power-political struggle in which the clash of

³ D. Donnelly, Struggle for the World, the Cold War from its Origins in 1917 (London: Collins, 1965), pp. 19-21.

⁴ D.F. Fleming, The Cold War and its Origins, 1917-60 (New York: Doubleday & Co., 1961), pp. 16-35.

⁵ F.L. Schuman, The Cold War: Retrospect and Prospect (Baton Rouge: Louisiana State University Press, 1961), pp. 79-80.

⁶ P. Seabury, The Rise and Decline of the Cold War (New York: Basic Books Inc., 1967), p. 16.

ideology plays no part. For others the Cold War is seen as primarily ideological. But clearly, these and other elements were involved.⁷

Until recently the history of the Cold War has been recounted in terms of "the brave response of free men to Communist aggression."⁸ In the light of recent revisionist works, however, no longer can we be secure in thinking the Western role in the Cold War has been one just of acceptance of the Russian challenge and a "determination to reciprocate
⁹ in kind." Now, whatever view we take as to the Cold War's "central meaning", or its actual starting date, it is undeniable that U.S. military and economic might has been directed against the Soviet Union. In 1919 not only is there evidence of direct U.S. military intervention against Russia, but also of economic sanctions.¹⁰ In the post 1945 period, the unprecedented economic strength of the U.S.A., as well as its atomic monopoly, influenced American diplomacy and "determined much of Truman's shift to a tough policy aimed at forcing Soviet acquiescence

⁷ For treatments of the origins of the Cold War that try to identify and rank all the causal factors, see A. Schlesinger Jr., "The Origins of the Cold War", Foreign Affairs, XLVI (October, 1967), 23-52. And W. Knapp, "The Cold War Revised", International Journal, XXIII (Summer, 1968), 344-356.

⁸ Schlesinger, ibid., p. 23.

⁹ R.H.S. Crossman, "Reflections on the Cold War", The Political Quarterly, XXII (January-March, 1951), 8.

¹⁰ The Bolsheviks' assumption of power in November 1917 was quickly followed by the curtailment of trade between the two countries. After 1919 the State Department stopped the issuance of export licenses entirely. Even when the restrictions were revoked towards the end of 1920, restrictions on the importation of Soviet gold remained, still making U.S.-U.S.S.R. trade an impossibility. See T.C. Bose, American Soviet Relations 1921-23 (Calcutta: K.L. Mukhopadnyay, 1967), pp. 42 and 48.

to American plans for Eastern and Central Europe."¹¹

Between V-J day (September 2, 1945) and the end of 1946 the Grand Alliance disintegrated. Allied cooperation was replaced by the emergence, at first dimly and haltingly, of global antagonism between the Soviet Union and the United States. Four power agreement proved to be almost impossible from the time of the first London Conference in 1945. Even if the Western powers had been willing to extend their efforts at conciliation, it seems obvious that sooner or later they would have been forced to break with Russia over its policy of defensive aggression in Eastern Europe, and its unilateral policy of stripping the economy of the Soviet zone of Germany. This determination to take a tough line with the Russians, although it did not become sharp and definite till the Truman doctrine and Marshall Plan had been proclaimed, had its roots in the thinking on American foreign economic policy as early as 1944.

At that time, those in positions to influence American decision making, men such as Averell Harriman and John Deane for instance, were urging "that American economic aid could be used to force the Russians to accept American policies in both the military and political fields."¹² By 1945 Harriman and the State Department were agreed that the United States "should retain current control . . . of these credits in order to be in a position to protect American vital interests in the formative

¹¹G. Alperovitz, Atomic Diplomacy Hiroshima and Potsdam (New York: Simon & Shuster, 1965), p. 13.

¹²Ibid., p. 30.

period immediately following the war."¹³

But before we can begin to understand exactly how American foreign economic policy could be utilized as a means of pressuring the U.S.S.R., we must seek to explain the nature of the dependence that had come to exist between the two countries. Though Britain had been able to furnish Russia's most urgent war needs in 1942, by 1943 Russian factories themselves had begun to supply the material they needed for the prosecution of the war. This effort, however, could not have been maintained for long without help from outside. Industrial materials, food, replacement and maintenance parts for industrial use, were in short supply and Russia herself had not the skilled manpower to make good these deficiencies without aid from the West. It was the United States alone that could provide what the Russians required. Consequently, the Americans undertook to supply a wide variety of machinery and component parts, indeed even entire factories, for the manufacture of steel tubing, tyres and for the refinery of oil.¹⁴ The supply of such materials thus helped to relieve what had been a critical problem for the Russian economy not only during the war but ever since the Five Year Plans had begun. This was not, however, pure gain for Russia. The Soviet economy came to be a part of a larger whole dependent upon the United States

¹³W. Millis, ed., The Forrestal Diaries (New York: Viking Press, 1951), p. 41. Indeed all President Truman's major advisers; Forrestal, Leahy, Grew and Stimson agreed with Harriman that economic aid could and should be used to bring the Russians into line in Eastern Europe. See Alperovitz, op. cit., pp. 26-27 and 36 and W.A. Williams, The Tragedy of American Diplomacy (New York: Dell Publishing Co., 1962), pp. 241-242.

¹⁴M.F. Herz, Beginnings of the Cold War (Bloomington: Indiana University Press, 1966), p. 160.

for essential supplies and upon a day-to-day process of inter-governmental negotiation and planning for their delivery.

Between 1943-45 Lend-Lease aid was provided according to Soviet requests and American resources with no "strings" attached.¹⁵ Very little question was raised about supporting evidence for Soviet requirements. The Russians would state their needs but refuse to explain them and to permit any inspection of their use.¹⁶ The negotiation of the second and third Lend-Lease protocols was unusually prolonged and sometimes acrimonious, yet the need of collaborating with the Russians on the Eastern front was of such importance to the successful execution of the war that petty antagonisms were not allowed to interfere.

By April 1945, however, with the war in Germany in its final phase, with the Polish question at issue, and with Truman, now President, determined to take a strong stand against the Russians, U.S. foreign economic policy underwent fundamental revision. Harriman, who had already in January received from Molotov a request for a six-billion dollar credit to aid the devastated Russian economy, now argued forcefully that the Soviet Government would yield to the American position on Poland because they needed U.S. help in their reconstruction programme.¹⁷ Since American economic aid was so important to the Russians

¹⁵J.R. Deane says Harriman received instructions from Harry Hopkins to this effect. See J.R. Deane, The Strange Alliance (New York: Viking Press, 1947), p. 98.

¹⁶Ibid., pp. 87-103.

¹⁷H.S. Truman, Year of Decisions Vol. 1, Memoirs (New York: Doubleday & Co., 1955), p. 70.

it was calculated that a 'showdown' was likely to bring favourable results "without running serious risks."¹⁸

That the Truman administration was preparing to use American economic power as an instrument for 'getting tough' with the Russians is, from the above, clearly evident. Though the Joint Chiefs of Staff were concerned that they might need Soviet help to defeat Japan, and did not want to jeopardize relations with the Soviets in case of that contingency, by April 24 they were advised that "(e)arly Russian entry into the war against Japan is no longer necessary to make the invasion feasible."¹⁹ Thus the way was clear for a policy of economic pressure to begin.

The failure of strong words with regard to the Polish issue provided the opportunity for the utilization of such measures. On May 8, 1945, the day after Stalin's rejection of Truman's stand on the Polish issue, and the day of the German surrender, Lend-Lease aid was precipitously cut off. Some ships bound for the U.S.S.R. were even ordered to turn back; instructions were given to discontinue the loading of ships in American ports, and goods already on board ships were unloaded.²⁰

¹⁸ Ibid.

¹⁹ U.S. Department of Defense, "The Entry of the Soviet Union into the War Against Japan: Military Plans, 1941-45" (Washington, September, 1955), p. 67. As cited by Alperovitz, op. cit., p. 32.

²⁰ The harshness of this action precipitated considerable public protest. On May 11 the President modified the order to allow ships already at sea to continue, and permitted the completion of loading

Though the abrupt cessation of Lend-Lease surprised and upset Great Britain, the other main recipient of Lend-Lease; coming at the time it did, it could not be interpreted by the Russians other than as American economic pressure in response to their intransigence over Poland. Although it can be argued that the cessation of Lend-Lease was technically in keeping with the letter of the Lend-Lease Act,²¹ and was not designed to put pressure on the Russians, "fresh evidence on this matter indicates that the advisers who urged the action did so for precisely this reason."²² Moreover, the evidence proves that the President, despite his subsequent denial to the contrary,²³ was well informed of the strategy and the extent of that strategy.

Before the final order was given, Truman received similar

operations already underway. The substance of the order, however, was not modified, and after the war with Japan had been won, Lend-Lease was again cut off. The President later disclaimed responsibility for the abrupt cessation of aid in May 1946, saying it was a case of policy making on the part of Foreign Economic Administrator, Leo Crowley and Assistant Secretary of State, Joseph Grew. See H. Feis, Between War and Peace (Princeton: Princeton University Press, 1960), p. 27.

²¹The Lend-Lease Act, as amended in April 1945, precluded any shipments for postwar relief, rehabilitation or reconstruction. However, Britain was still in the war against Japan and the Soviet Union had undertaken to join that war within three months of the end of the war in Europe. See Herz, op. cit., p. 167.

²²Alperovitz, op. cit., p. 37.

²³Truman later disclaimed responsibility for the abrupt "manner in which the (cut-back) order was executed" saying he had not read the paper he had signed. Even if one accepts Truman at his word, the fact remains that he immediately substituted a slightly modified order which accomplished substantially the same purpose. Truman, op. cit., p. 228.

advice on the matter from two distinct sources, the State Department and the Foreign Economic Administration. Secretary of War Stimson went to the White House for the express purpose of making sure that "the President fully understood the Lend-Lease problem."²⁴ With regard to Stimson's view that the best approach to take with the Russians was to eliminate the Lend-Lease Protocol, Truman expressed agreement, and was indeed "vigorously enthusiastic" of such a measure.²⁵ Yet despite the economic pressure which the Lend-Lease cut-back created, the Russians did not give way in the diplomatic confrontation. Indeed, Stalin replied in a brief note on May 10 that "I am obliged to say this attitude rules out an agreed decision on the Polish question."²⁶

The initial failure to pressure the Russians by economic means was not, however, abandoned. Such economic persuasion was both continued and increased, as can be seen with regard to the issue of credits to Russia for post war reconstruction. In January, 1945, Molotov presented Harriman with an aide-mémoire proposing that the U.S.A. grant the Soviet Union a six billion dollar credit for such purposes. Harriman commented at that time that:

Molotov made it very plain that the Soviet Government placed high importance on a large post war credit as a basis for the

²⁴ Alperovitz, op. cit., p. 37.

²⁵ The Stimson Diary, May 11, 1945, as cited in Alperovitz, ibid.

²⁶ J. Stalin, Correspondence Between the Chairman of the Council of Ministers of the U.S.S.R. and the Presidents of the U.S.A. and the Prime Ministers of Great Britain During the Great Patriotic War of 1941-45 (Moscow: Foreign Languages Publishing House, 1957), Vol. 2, p. 232.

development of 'Soviet-American relations'. . . . It is, of course, my very strong and earnest opinion that the question of the credit should be tied into our overall diplomatic relations with the Soviet Union, and at the appropriate time the Russians should be given to understand that our willingness to co-operate whole heartedly with them in their vast reconstruction problems will depend upon their behaviour in international matters.²⁷

Seen in the light of the utilization of economic pressure on the U.S.S.R. through the cessation of Lend-Lease it is not surprising that such a loan was never made. In view of all the disagreements with the U.S.S.R. that had occurred since Yalta, the United States had lost interest in the idea of a credit for Russian reconstruction.²⁸ Indeed, as far as it can be determined, the United States did not reply to the Russian request until a year later.²⁹ In August 1945, the Russians made a second approach, this time suggesting a credit of one billion dollars, the reply to which was also delayed. On this occasion the application was conveniently lost when the records of the Foreign Economic Administration (FEA) were transferred to the State Department. One rumour circulating in Washington at the time was the FEA administrator, Leo Crowley, "had exercised an independent pocket veto of the loan."³⁰ However, when

²⁷ U.S. Department of State, Foreign Relations of the United States Diplomatic Papers, the Conferences at Malta and Yalta (Washington, D.C.: U.S. Government Printing Office, 1945), p. 313.

²⁸ For the dialogue that passed between Elbridge Durbrow (Chief of the Division of East European Affairs) and Dean Acheson (Acting Secretary of State) on this point, see Foreign Relations of the United States 1946 Vol. VI, Department of State Publication 8470 (Washington, D.C.: U.S. Government Printing Office, 1969), pp. 820-822.

²⁹ W.B. Smith, My Three Years in Moscow (Philadelphia: Lippincott, 1950), p. 222.

³⁰ C.P. Kindleberger, "The Marshall Plan and the Cold War", International Journal, XXII (Summer, 1968), 373.

the Russian request finally came to light at the end of February 1946, the Soviet Union was informed that discussion of a loan through the Export Import Bank should be connected with some sort of quid pro quo with regard to Russia's political and economic dealings with her satellites in Eastern Europe, and Russian adherence to the World Bank and International Monetary Fund (IMF).³¹ No agreement was forthcoming and the Russians indeed made it clear in their reply of March 15 1946 that this was unacceptable. The Export Import Bank now used the funds earmarked for the U.S.S.R. instead by approving in April 1946 a loan of five hundred million dollars to China and in May of the same year a six hundred and fifty million dollar credit to France.³²

The unity of American foreign economic policy and foreign policy in general in what had now become the Cold War era was further demonstrated by the U.S.A.'s action with regard to the United Nations Relief and Rehabilitation Administration (UNRRA). At the London meeting of the UNRRA Council in August 1945, the Soviet Union, technically a donor country, applied for relief in the amount of seven hundred million dollars but later reduced its request to two hundred and fifty million dollars, the supplies to be used exclusively in Byelorussia and the Ukraine. As the U.S.A. was the main supplier of relief aid through UNRRA, and had

³¹ The Russians had concluded a series of treaties with their satellites in Eastern Europe which gave them especially favourable terms. The State Department, which was at the time committed to the ideal of non-discriminatory trade, was determined to do something about it. See W.H. McNeill, America, Britain and Russia--Their Cooperation and Conflict, 1941-46 (London: Oxford University Press, 1953), p. 691.

³² J.C. Campbell, The United States in World Affairs, 1945-47 (New York: Harper Bros., 1947), p. 375.

already embarked on a policy of pressuring the Russians by economic means, it was naturally consistent with American policy to discontinue its support to a body in which its aid would benefit the U.S.S.R. Both Clayton, the representative of the U.S.A. at the London UNRRA Council, and Secretary of State Byrnes, resolved that after the expiration of the second UNRRA tranche "any new appropriations by Congress for foreign relief should be allocated by the United States and should go to those countries who would not denounce us for granting them the relief they asked for."³³ American policy from May 1946 was clearly oriented to giving credits only to their political friends. "The cancellation of an Export Import Bank loan to Poland on May 10, and similar action with respect to Czechoslovakia on October 18 1946, stand as signposts" to this policy.³⁴

Not only were American loans cancelled because of political considerations, but political considerations were present in their being granted. The Polish loan was accompanied by "a series of conditions regarding free elections, publications of the terms of the loan, and information about hitherto secret trade and financial agreements. . . ."³⁵

The cancellation of the Czechoslovakian credit³⁶ and the refusal of a

³³ J.F. Byrnes, Speaking Frankly (New York: Harper Bros., 1947), p. 146.

³⁴ McNeil, op. cit., p. 373.

³⁵ Campbell, op. cit., p. 377.

³⁶ At the Paris Peace Conference (July 1946), Secretary of State Byrnes took exception to the fact that the Czechoslovak delegates had applauded a Soviet denunciation of the U.S.A., "as a Government seeking to dominate the world by 'hand-outs'". Also the Czechoslovakian

loan to the U.S.S.R. were also political decisions. The decisive factor in making the loan to Italy for example was probably to help and strengthen "a friendly country in an exposed position" and the timing of the French loan was "undoubtedly decided with an eye on French politics."³⁷

Further evidence of the application of U.S. foreign economic policy designed to bring pressure to bear on the U.S.S.R. is apparent in the open rupture of American and Russian policy on Germany, and the decision of the American Congress to approve a loan of 3750 million dollars to Great Britain. The Anglo-American Financial Trade Agreement, to give the loan its proper name, was first advocated as a means of establishing freer international trade. By May 1946, however, following Secretary of the Treasury Vinson's representation to Congress that there was no alternative at the moment but a division of the world between Russian and Anglo-American economic blocs,--Congress and the American public came to see it, not only as American support for Britain against Russia, but as a direct means of combatting Russian Imperial Communism which,

Government, Byrnes had learned, "had entered into a contract to transfer to Roumania ten million dollars of their 'emergency' credit. The transfer was to carry an interest rate of six per cent plus an administration fee of seven per cent, giving the Czechs a very nice profit, since they were to pay only two and two-eights per cent interest on the money borrowed. . . ." See Byrnes, op. cit., p. 143.

³⁷ Campbell, op. cit., p. 377. With regard to both Italy and France, throughout 1946 there were indications that economic conditions were so bad in these countries and Communist support was so strong (in elections held between October 1945 and October 1946 one-quarter of France's electorate and one-third of the electorate in Italy had voted Communist) that the Communists might come to power. Indeed, in Italy there were indications that the Communists were prepared to seize power by a coup d'etat. See McNeill, op. cit., p. 734, Campbell, op. cit., pp. 160-16 and J. Spanier, American Foreign Policy Since World War II (New York Frederick A. Praeger, 1968), pp. 47-51.

after all, "threatened the interests of the United States as well as those of Great Britain."³⁸ With regard to Germany, it was not long before the initial Morgenthau ideas for the de-industrialization and pastoralization of Germany implemented in the famous JCS 1067 directive,³⁹ were replaced by a new American policy⁴⁰ designed to shift the emphasis from de-industrialization and reparations to recovery in order to woo Germany, to help cut the mounting costs of occupation, and at the same time take a strong stand against the Soviets.⁴¹

The genesis of the policy shift can clearly be seen shortly after Potsdam with the issuance of the State Department pamphlet "The Reparation Settlement and the Peacetime Economy of Germany".⁴² Secretary

³⁸ McNeill, op. cit., p. 687.

³⁹ The JCS 1067 directive was supposed to guide the U.S. forces in the initial occupation period. According to the directive Germany was not to "be occupied for the purpose of liberation but as a defeated nation. . . ." Further, the Commander-in-Chief of the occupying forces was directed to "take no steps (a) looking towards the economic rehabilitation of Germany, or (b) designed to maintain or strengthen the German economy." See E.F. Penrose, Economic Planning for the Peace (Princeton: Princeton University Press, 1953), pp. 268-269.

⁴⁰ Indeed, only a short time after taking office, Truman asked for the resignation of Secretary of the Treasury Morgenthau. See Truman, op. cit., p. 327.

⁴¹ In any case, the reparation settlement itself was a basis of conflict between the West and the Russians. E.F. Penrose has written that "in the preparations for the peace, no subject was more bungled than that of reparations." The twenty billion dollar reparation figure proposed by the Soviet Government at Yalta, half of which was to be paid to the U.S.S.R., was never accepted as final and only as a basis for discussion at the Tripartite Reparation Commission which was to meet later in Moscow. The reparations settlement came to be more and more dominated by "the necessity of checking Russia's exorbitant demands on Germany . . . and her efforts to get a foothold in the Ruhr. . . ." Penrose, op. cit., pp. 272-282.

⁴² U.S. Senate Committee on Foreign Relations, A Decade of American

of State Byrnes' Stuttgart speech of September 6 1946, calling for higher production levels, for the fusion of zones, and for the early establishment of a provisional German Government went even further in this direction.⁴³

Already on May 3 1946 General Clay had informed his Russian colleagues on the Allied Control Council in Berlin that, except for advanced reparations already agreed to, deliveries of reparations from surplus capital equipment would be halted, and by December 1946, as a response to Byrnes' speech and the proposal to merge the zones made by the American Military Governor to the Allied Control Council seven weeks earlier,⁴⁴ 'Bizonia' came into being.

Hand in hand with America's new policy emphasising German recovery, went the United States sponsored programme for German monetary reform. Consciously sought by the Allies as a means to stop German hyper-inflation and revive the German economy,⁴⁵ the Allies also understood that it would hurt Soviet political prestige and economic interests.⁴⁶

Foreign Policy Basic Documents 1941-49 (New York: Greenwood Press, 1968), pp. 971-976.

⁴³ See V. Petrov, Money and Conquest, Allied Occupation Currencies in World War II (Baltimore: John Hopkins Press, 1967), p. 230.

⁴⁴ See J.H. Hilldring, American Policy in Occupied Areas, Department of State Publication No. 2794 (Washington, D.C.: U.S. Government Printing Office, 1948), pp. 7-8 as cited in Petrov, ibid., p. 233.

⁴⁵ To prevent Germany from starving the Western Allies were pumping six hundred million dollars a year into that country. See Petrov, ibid., p. 249.

⁴⁶ Economists in the Austrian Control Council had already achieved a brilliant coup in imposing on the Austrian economy a single currency which was controlled by the Council. This gave the Western powers control over Soviet expenditures in the Russian zone of occupation. See Kindleberger, op. cit., p. 380.

Indeed, they meant it to do so. By stopping the inflow of 'cheap' Eastern marks⁴⁷ into the Western zones and the outflow of goods to the Soviet zone, it forced the Soviet administration into taking care of the East German economy at a time when the U.S.S.R. was badly in need of economic assistance.

⁴⁷ Although the free market rate was 1 to 4 and even 1 to 5 in favour of the DM currency, Soviet marks could be accepted in Western sectors at one to one parity in payment for certain goods. See Petrov, op. cit., p. 246.

CHAPTER III

ECONOMIC INSTITUTIONALIZATION OF THE EAST-WEST DIVISION

The economic events preceding the declaration of the Truman doctrine leave little doubt that the U.S.A. had indeed embarked on an aggressive use of foreign economic policy in support of its general foreign policy goal, the containment, and if possible the reversal, of Communist expansion. President Truman's announcement to Congress on March 12 1947 of American aid to Greece and Turkey, Secretary of State Marshall's speech on June 5 1947 at Harvard offering 'Marshall aid' and the passing of the European Cooperation Act on April 3 1948, establishing the Economic Cooperation Administration (ECA) made it doubly clear that this was the case.¹

¹Indeed from the preamble to Title I of the Economic Cooperation Act of 1948 it is apparent that the measure was enacted "to promote world peace and general welfare, national interest and foreign policy of the United States through economic, financial and other measures necessary to the maintenance of conditions abroad in which free institutions may survive and consistent with the maintenance of the strength and stability of the United States. See Public Law 472, 80th Congress, 2nd Session. Also L.C. Green, "European Recovery: Constitutional and Legal Problems", World Affairs, IV (October, 1948), 375. Further, the underlying assumptions of the Economic Cooperation Act of 1948 were that:

1. The recovery of Europe as a whole was vital to world recovery and was a prerequisite for achieving the general aims of United States commercial and financial policy.
2. In the interests of American security, strong measures had to be taken to check the advance of Communism in Europe.
3. The Communist threat took the form of exploiting low standards of living and economic stagnation, rather than overt military aggression.

Ostensibly, though every effort was made to stress that the Marshall Plan was not designed to place pressure on the Soviet Union,² coming as it did after the proclamation of the Truman doctrine, it is not altogether surprising that the Russians chose to react to it with hostility and suspicion.³ "Indeed there was no doubt that Russia was included in the offer. Questioned about the meaning of the term Europe at a press conference on 12 June 1947, General Marshall replied that he meant 'everything West of Asia'. He specifically included Russia."⁴ Yet, by inviting the Russians to participate, the Marshall Plan must surely be viewed as one of the most dramatic and imaginative examples of American diplomatic shrewdness since the end of World War II. The 'plan' by its careful presentation was well suited to create or exploit attitudes favourable to the aims of American foreign policy. It placed the U.S.S.R. in the embarrassing position of having to decide "for itself and for its satellites, whether the offer was an invitation or a

4. The most suitable way to counteract this form of threat was to use economic and financial resources.

Paraphrased from Staff Papers presented to the Commission on Foreign Economic Policy (February, 1945), p. 27. As cited in W. Reitzel, M.A. Kaplan and C.G. Coblenz, United States Foreign Policy 1945-1955 (Washington, D.C.: The Brookings Institution, 1956), p. 376.

²Indeed Marshall's speech at Harvard even went so far as to say that the 'plan' was not "directed at any country of doctrine but against hunger, poverty, desperation and chaos."

³Pravda on July 16 1947 commented, "Mr. Marshall's Plan . . . notwithstanding its apparent novelty is only a repetition of the Truman plan for political pressure with the help of dollars, a plan for interference in the domestic affairs of other countries." As cited in Donnelly, op. cit., p. 243.

⁴P. Calvocoressi, Survey of International Affairs, 1947-48 (London: Oxford University Press, 1952), p. 32.

challenge,"⁵ and seemed to throw all responsibility for the Cold War on Russian shoulders.

Either way, with Russian participation or without it, the Marshall Plan would have been an economic and diplomatic coup for the U.S.A.⁶ If the Soviet Union had joined, Marshall's proposals would have had a chance to make economic and political inroads into the East European Communist bloc even though the Plan's operation would have been made that much more difficult.⁷ At the same time, the refusal of the Soviet Union and her East European satellites to join did not imply the restriction of trade between the East and West. Gradual restoration of East-West trade was explicitly envisaged and provided for in European plans, and these plans enjoyed U.S. approval.⁸

One further set of U.S. foreign economic policies in the early

⁵ Campbell, op. cit., p. 59.

⁶ J.M. Jones, in reviewing America's aims with regard to the Marshall Plan has said it aimed to induce the Soviet leaders to enter into "a policy of collaboration with regard to Europe as a whole for immediate material benefits to the Soviet Union and its satellites." "A second objective" he continued was "to strengthen Western Europe and increase its Western orientation under our leadership so that we would be better able to resist in the event the Soviet Union should decline to collaborate." See J.M. Jones, The Fifteen Weeks (New York: Harbinger Books, 1964), p. 243.

⁷ Indeed, many State Department officials feared that the Soviet Union would join the Marshall Plan to disrupt it. See C.P. Kindleberger, "The Marshall Plan and the Cold War", International Journal, XXII (Summer, 1968), 378.

⁸ See Message of the President to Congress, December 19, 1947, reprinted in A Decade of American Foreign Policy 1941-49, pp. 1294-1295. Not until the invasion of South Korea from the North did a revision of this policy take place with the Battle Act of 1951.

Cold War period remains to be discussed. This is the policy of export licensing that began in 1948 and was later expanded in several major pieces of legislation including the Export Control Act of 1949, and the Mutual Defence Assistance Control Act (Battle Act) of 1951. The 1949 Act withdrew Most-Favoured-Nation tariff treatment from all Communist states and established a list of strategic goods for which no U.S. export licenses could be issued. The 1951 Act further "tried to ensure Allied co-operation with that policy by threatening to terminate economic aid to any state exporting strategic items to the Communist bloc."⁹ Under the 1949 Act a number of exceptions were made "favouring such countries as Yugoslavia and Poland as a means of encouraging tendencies towards 'polycentrism' and economic liberalism in the Communist world."⁹

Without doubt the effect of these American foreign economic policies, used as instruments to pursue political and security ends, have added depth to the Cold War. With regard to the cessation of Lend-Lease, the refusal to grant credits to the Soviet Union, currency reform in Germany and the policy of strategic licensing, Stalin could effectively point to them as proof of deep animosity on the part of the whole Western world. In particular he could effectively demonstrate the determination of the West to hamper "to the uttermost" economic development in the Soviet countries.¹⁰ With regard to the utility of American economic policies in the West, there was no doubt that Marshall aid reinvigorated

⁹ B.J. Cohen, ed., American Foreign Economic Policy, Essays and Comments (New York: Harper & Row, 1968), p. 32.

¹⁰ G. Myrdal, Challenge to Affluence (London: V. Gollancz Ltd., 1963), p. 114.

the economy of Western Europe in the face of the expansionist threat of world Communism whether that threat was 'real' or not.

Although the whole gamut of U.S. foreign economic policy in the post war period was "designed to create conditions of economic stability as a basis of strengthening the political forces of democracy",¹¹ the development of international economic relations at this time may be interpreted as being in conflict with previous American ideals for the liberalization of international trade relations. "(B)efore, during, and even more determinedly since the war" American foreign economic policy was largely inspired by a desire to lower political barriers to trade and financial dealings.¹² Such a policy, of course, promised great advantages to American industry and agriculture, but Americans did not believe that their advocacy of liberal policies was simply or purely selfish. "They thought instead that exchange of goods and services was the only sound basis for international peace. . . ."¹³ Even in the years before the war, Secretary of State Hull had no doubt on this subject.

To me, unhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition with war . . . if we could get a freer flow of trade . . . so that one country would not be deadly jealous of another and the living standards of all countries might rise, thereby eliminating the economic dissatisfaction that breeds war, we might have a reasonable chance for a lasting peace.¹⁴

¹¹W. Reitzel, M.A. Kaplan and C.G. Coblenz, op. cit., p. 376.

¹²See L.S. Amery, "Non-Discrimination and Convertability", World Affairs, II (January, 1948), 13.

¹³McNeill, op. cit., p. 662.

¹⁴The Memoirs of Cordell Hull, Vol. 1 (New York: The MacMillan Company, 1948), p. 81.

There is no doubt that these sentiments were truly meant, in practice, however, the pursuit of such policies by the U.S.A. has led to the converse effect. The Most-Favoured-Nation or non-discrimination clauses that the U.S.A. has pursued in its postwar economic aid policies to Europe have been destructive of international economic stability,¹⁵ and have contributed, together with the Marshall Plan, to the division of the world into the Cold War economic blocs. The application of such a policy with regard to the British loan in 1945 is an outstanding example of such bloc building. Not only was Britain forced to consider the elimination of Empire tariff preferences, but the American insistence on convertability of sterling one year after the agreement came into force further dissipated British economic strength and forced her further reliance on the 'generosity' of the U.S.A.¹⁶ Further, in searching for a

¹⁵ Amery, op. cit., p. 19. Although the Most-Favoured-Nation standard in international economic law was not an American invention--indeed its origins are to be found in British State practice of the twelfth century--the U.S.A. has made considerable, though not exclusive, use of such practice in the postwar era. In the treaties of peace signed with Italy, Roumania, Bulgaria and Hungary Most-Favoured-Nation clauses are to be found (Articles 82, 31, 29, 33 respectively). Similarly, the treaty of peace signed with Finland (the U.S. was not a signatory) contained such a clause. The point to be stressed here is not that the Most-Favoured-Nation standard is, in and of itself, an international economic law standard making for instability, but that its extensive use at this time by such an economically preponderant country as the U.S.A. was certainly inopportune. For a discussion of the Most-Favoured-Nation standard see G. Schwarzenberger, "The Most-Favoured-Nation Standard in British State Practice", The British Yearbook of International Law 1945, pp. 96-121. For the text of the Most-Favoured-Nation clauses in the above mentioned treaties see Treaties of Peace with Italy, Roumania, Bulgaria, Hungary and Finland, Texts for Signature in Paris on 10 February 1949, Cmd. 7022 (London: H.M.S.O., 1947), pp. 33, 89, 108, 129 and 145-146.

¹⁶ Largely due to the convertability clause, the U.S. loan of 3750 million dollars to Britain which was supposed to last till 1951 was exhausted four years earlier toward the end of 1947. See B. Ward, The West at Bay (London: Allen & Unwin, 1948), pp. 6-7.

plan in response to Marshall's aid initiative, the sixteen participating nations were led to believe by the U.S.A. that "while a European Customs Union might be accepted, no scheme of mutual co-operation will be looked at which involves any departure from non-discrimination. . . ."¹⁷

But if Most-Favoured-Nation treatment clauses in the peace treaties signed in 1949 helped to divide the world into two, and tie the Western half to U.S. political and economic leadership, the IMF and World Bank that were conceived during 1941-1945 as the product of joint U.S. and British designs for the postwar world, together with the concluding of the General Agreement on Tariffs and Trade (GATT) in October 1947, had started that division. GATT provides the most striking instance of the use of the Most-Favoured-Nation standard as a Cold War economic weapon. "Paradoxical as it may sound, the greater the number of parties to a multilateral agreement adopting the most-favoured-nation standard, the more meaningless this standard becomes,"¹⁸ for in such a treaty third parties are only the non-signatories. As Schwarzenberger rightly said of the Geneva Agreement in 1948:

If ever such a treaty should attain universal scope, there would be no longer any State constituting the required tertium comparationis. In a world which is increasingly split between two major political and economic camps, this means that, sooner or later, most states within the magnetic field of the Capital are likely to become

¹⁷ Amery, op. cit., p. 14. Also, J.D. Krivine, "The Marshall Plan--Where Does it Lead?", World Affairs, II (October, 1948), 387-397.

¹⁸ G. Schwarzenberger, "The Province and Standards of International Economic Law", International Law Quarterly, II (Autumn, 1948), 414.

parties to the Geneva Agreement. . . . Members of the Soviet bloc will be the most likely 'third parties' in the meaning of the Agreement. It is the function of the most-favoured-nation standard as applied in the Geneva Agreement to prevent discrimination by any party to the Agreement in favour of such outsiders against other signatories.¹⁹

With regard to the IMF and World Bank the U.S., by virtue of its immense contribution to the funds of those institutions, "not only had the largest vote (almost 40%) but could veto flotation of loans" in the U.S.A. which was the potential source of most of the Bank's funds. The American representatives to the Bank themselves were subject to the control of the National Advisory Council on International Monetary and Financial problems (NAC).²⁰ Further, Michael Hudson, in an article criticizing the effect of Bretton Woods, has written

The problem facing U.S. diplomats at Bretton Woods in 1944 was how America's allies were to honour their new indebtedness to her. . . . (T)hey did not leave America's allies without an institution capable of financing their wartime and postwar debts, but took the lead in forming the International Monetary Fund and the World Bank . . . to service their growing international debt to the United States and to sustain their demand for U.S. exports. . . .²¹

In the light of these facts it is not surprising that although

¹⁹Ibid., p. 415. For a discussion of the political initiatives leading to the setting up of GATT see W.A. Seyid Muhammad, The Legal Framework of World Trade (London: Stevens and Sons Ltd., 1958), pp 1-23 *passim*.

²⁰Campbell, op. cit., p. 381. Also see, E. Roll, The World After Keynes, An Examination of the Economic Order (New York: F.A. Praeger, 1968), p. 97.

²¹M. Hudson, "Epitaph for Bretton Woods", Journal of International Affairs, XXIII (1969), 267.

the U.S.S.R. did take part in the initial Bretton Woods conference, she did not join either organization. Though it has been suggested that she chose not to join because to do so she would have had to reveal the size of her gold reserves²² and other economic statistics, it seems clear that the failure of the U.S.S.R. and its satellites to join was due to the not unfounded fear that the World Bank and IMF would be put to the political use of the United States.

Although the Acts providing for the establishment of the IMF and World Bank, were not presented to Congress on the grounds that Communism would be further contained,²³ as documents of political economic diplomacy, the articles of agreement which established the World Bank and IMF must be viewed as complementary to other tools of an international and financial nature that U.S. foreign economic policy had by that time come to employ.

²² J. Morris, The World Bank (London: Faber & Faber, 1963), p. 46.

²³ Indeed it was presented essentially on the grounds that it was necessary to provide Europe with the resources to purchase U.S. exports if full employment were to be achieved in the U.S.A. In this respect the Bretton Woods Act was complementary to the Full Employment Act of 1945. Dean Acheson said as much in his Congressional testimony that:

"We have the greatest productive plant in the world. While the rest of the world has been undergoing destruction we have been building up this plant in order to carry the great burden of the war. One of the problems in the future will be to keep that great plant employed and to keep the people employed who are now working in it or who come back from the armed forces. Very well. We all profit by enabling these countries which have been destroyed, or which need development, to make purchases from those who can produce the goods they need." Senate Committee on Banking and Currency, Hearings on H.R. 3314, p. 40. As cited in Hudson, fn. op. cit., p. 272.

CHAPTER IV

U.S. COLD WAR COMMITMENT: AN ECONOMIC STABILIZER

That the United States consciously and extensively used foreign economic policy in the early Cold War period, and that the use of such a policy served to deepen and even add to existing Cold War antagonisms is abundantly clear. What must be emphasised at this point, as it is relevant to the part of this thesis that suggests a systemic need of U.S. society for Cold War, is that the use of such policies at that time came not only as a response to Soviet aggression but as W.A. Williams has suggested, as a direct result of the traditional commitment of American foreign policy to the principle of the Open Door.¹

Based on the firm conviction, even dogmatic belief, that America's domestic well-being depended on sustained and ever increasing overseas expansion, the policy of Open Door was designed to establish the conditions under which America's preponderant economic power could be extended throughout the world, without the embarrassment and inefficiency of traditional colonialism. When the Truman administration came to office it was clear that these aspects of the traditional approach to American foreign policy would be sustained. Even if Truman had questioned

¹W.A. Williams, The Tragedy of American Diplomacy (New York: Dell Publishing Co., 1962), p. 205.

the applicability of the traditional American commitment to the strategy of Open Door in the new circumstances then arising out of World War II, domestic economic fears would have ensured the application of such a policy.

Indeed the fear of renewed economic recession in the United States has, since the Great Depression of 1929, been very real and very great. The onset of depression in 1929 brought to a close and even reversed for a time the economic expansion that the U.S. had undergone during the First World War.² "In 1933 the New Deal inherited an economy which was operating at about three-fifths of normal capacity,"³ and although between 1933 and 1940 the American economy exhibited a considerable degree of recovery, in 1939-40 after six and a half years of the New Deal, the levels of production were still roughly those of 1929. In addition, the United States had at this time "9.5 million workers unemployed", representing "a staggering 17.2 per cent of the labour force".⁴ Even though

² In World War I American credits to the Allies allowing them to place heavy war orders with American industry stimulated and sustained U.S. economic growth to such an extent that "(b)etween 1915 and 1918, expenditure on new buildings and equipment rose from \$600 million to \$2.5 billion, a large proportion of which was clear gain to the country's permanent capital. The gross national product rose 15 per cent between 1914 and 1918, while manufacturing increased by 37 per cent." In addition for the American economy, World War I had the effect of stimulating the development of mass production methods, such that national income in the decade that followed increased from 59.4 billion dollars in 1921 to 87.2 billion dollars in 1929. See B. Ward, The West at Bay (London: Allen & Unwin, 1948), p. 90.

³ S.E. Harris, The Economics of American Defense (New York: W.W. Norton & Co. Inc., 1941), pp. 23-24.

⁴ F.J. Cook, The Warfare State (New York: The MacMillan Co., 1962), p. 65.

World War II soon began to repeat the expansion of the Great War, this time on an even larger scale,⁵ the fear of postwar depression in the U.S.A. remained. By March 1946, the New York Times was able to report that "'in all groups there is a growing fear that after several years of high prosperity, the United States may run into something even graver than the depression of the thirties.'"⁶

As early as 1944, Assistant Secretary of State Dean Acheson, testifying before a Special Congressional Committee on Post-War Economic Policy and Planning, voiced his own fears about the economic consequences of the war's end. If depression does reoccur, Acheson asserted:

. . . we may say it is a problem of markets. You don't have a problem of production. The United States has unlimited creative energy. The important thing is markets. We have got to see that what the country produces is used and is sold under financial arrangements which makes its production possible.⁷

Others with similar fears, H.A. Wallace, Secretary of Commerce in 1945, for example, asserted it was vital "'that Government co-operate with the export trade . . . to put on an aggressive sales campaign

⁵Between 1940 and 1944, American National income doubled from 90,000 million dollars to 180,000 million dollars, and by 1948 it had risen to 225,000 million dollars approaching three times the pre-war figure. See H.K. Smith, The State of Europe (London: The Crescent Press, 1950), p. 75. Barbara Ward has rightly said, "Americans built up on top of their old economy a new one of almost equivalent size. . . . The United States in 1946 and 1947 was without peer in the world and its economic strength was unique in the entire history of mankind." War, op. cit., p. 91.

⁶As cited in Williams, op. cit., p. 266.

⁷As cited in Williams, ibid., p. 235.

abroad.'" Milo Perkins, a New Deal businessman who for a time headed the Board of Economic Warfare, went even further than Wallace in underlining the thesis of postwar depression when he called for the sale of "great quantities of machinery and transport equipment and machine tools if we are to avoid large scale factory shutdowns here at home." Labour and farm leaders joined corporation executives and Government officers in supporting that analysis. 'We cannot possibly maintain full production and full employment,' the United Auto Workers announced in 1945, 'unless we have a world pool of free and prosperous consumers'. 'Foreign trade,' the Union explained, 'can be the margin between a drop into economic chaos and a steadily expanding economy.' Edward O'Neil, President of the American Farm Bureau Federation, was equally vehement. Agricultural surpluses 'will wreck our economy unless we can find sufficient outlets in foreign markets to help sustain the volume of production.' In his view, the 'finest' policy proposal involved Wilson's old idea of extending the Monroe Doctrine to the world at large."⁸

That the Truman administration itself feared and consciously sought to avoid a postwar depression is clearly demonstrated by the domestic justification or benefit that it imputed to the Marshall Plan. Undersecretary of State for Economic Affairs Clayton saw the Marshall Plan as a means of disposing of America's "great surplus". Marshall, not surprisingly, took a similar approach before Congress when he commented: "'(t)he paramount question before us, I think, can be stated

⁸Ibid., p. 238.

in business terms.' The consequences of failing to carry through on the plan, he explained, would be to confront America, if not (with) a trade barrier, certainly with a great detriment to our ordinary business, or commerce and trade."⁹ Secretary of the Interior, Julius A. Krug, was even more explicit; he described the plan as "'essential to our continued productivity and prosperity'."⁹

As it transpired, the fear of a postwar depression was unfounded. America's problem of markets, at least while wartime pent-up demand remained unfulfilled, was sufficient to keep any such occurrence at bay. Between 1944 and 1948 expenditures on consumer durables had tripled and there was a tenfold increase in non-farm residential construction. All this was made possible by the accumulation during the war of personal savings in excess of 160 billion dollars.¹⁰ Indeed, taking foreign and domestic demands together, the problem for the American economy in the immediate postwar years was one of too many markets and over-utilization of resources, rather than too few markets and corresponding under-utilization.¹¹ The Open Door motivation of U.S. foreign economic policy in the early postwar period thus served more to crystalize the Cold War than it did to ensure the continued prosperity of the American economy. That it did so, however, proved to be one of the more beneficial aspects

⁹ Ibid., p. 271.

¹⁰ E. Benoit, "Disarmament in the United States", in Disarmament, Its Politics and Economics, ed. by S. Melman (Boston: The American Academy of Arts and Sciences, 1962), p. 328.

¹¹ J.H. Williams, Economic Stability in a Changing World, Essays in Economic Theory and Policy (New York: Oxford University Press, 1955), p. 71.

of U.S. foreign economic policy; for since the mid 1950's, when the prosperity of the American economy has shown signs of being threatened, "the relationship of the Cold War to the needs of the industrial system has been remarkably close."¹²

The changed nature of American capitalism, from a free enterprise system to "a military dominated centralization"¹³ brought about by the creation, during the Second World War, of a massive defence industry, made it inevitable that this relationship would come about. "In World War I most defence industry was essentially civilian industry which had converted, often quite reluctantly, from the production of civilian items. . . ."¹⁴ Starting in 1940, however, a good share of defence production has come to be in the hands of highly specialized defence contractors. These concerns have little or no experience with civilian production and for them disarmament would imply not reconversion but a radical diversification into types of production in which they are inexperienced. The increased dependence of the larger, more diversified corporations such as General Electric, General Dynamics, Lockheed, Boeing, North American Aviation and International Telephone and Telegraph on military procurement from this time, is also evident. Between 1940-44 some 175 billion dollars worth of prime military supply contracts

¹² J.K. Galbraith, The New Industrial State (Boston: Houghton Mifflin Company, 1967), p. 328.

¹³ V. Obenhaus, Ethics for an Industrial Age, A Christian Inquiry (New York: Harper & Row, 1965), p. 145.

¹⁴ Benoit, op. cit., p. 142.

were distributed, two-thirds of the total dollar volume of which went to these and other such corporations.

The beneficial effect of such 'military capitalism' was so marked even for the larger corporations that they quickly became convinced that massive defence expenditures were the only thing that had brought the U.S. economy out of the Depression, and were the only thing that could ensure continued national and, of course, self interested prosperity in the future. Charles E. Wilson, on leave from the Presidency of General Electric and serving as Chairman of the War Production Board (WPB) made it clear that this was indeed how the large corporations felt. In January 1944, "he openly suggested an alliance of Big Business and the Military in 'a permanent war economy'." Wilson, whilst urging the military to assume leadership in such an endeavour, stressed that "'this must be . . . a continuing program and not the creature of an emergency'." American industry, he continued, would for its part "be happy 'to respond and co-operate'," and to execute "'the part allocated to it'."¹⁵

Since World War II it does indeed seem that there has been a relationship between the size and build up of defence expenditures and the level of United States industrial activity and general prosperity. Seymour Harris stated in 1959 that:

If we treat the years from 1941 to the present as a whole, we find . . . that a period of record prosperity coincided with a period of heavy military outlay. . . . In eighteen years, purchases of goods and services for defence and war accounted for

¹⁵Cook, op. cit., pp. 66-67.

more than \$700 billion. About one dollar out of seven went for war and preparation for war, and this expenditure undoubtedly was a stimulus for the economy.¹⁶

Indeed, it is so well known today that the American economy "responds euphorically to war or threat of it" that the Russians attribute to American statesmen "a deliberate policy of war in order to avoid economic collapse."¹⁷

In the U.S.A., the reasons for the existence of a marked relationship between defence expenditures and industrial activity, and the inadequacy of compensatory programmes when military procurement had dropped, are not difficult to pinpoint. That any industrial country requires a large public sector for the stabilization of aggregate demand is widely recognised. However, the U.S. in the early Cold War period, and even to this day, has been "apathetic" in applying policies for such stabilization.¹⁸ This has been particularly evident with regard to the apparent inability of successive U.S. administrations to pursue an effective fiscal policy. Indeed, Congressional apathy to Federal non-military expenditure programmes is such that in 1962 these were "in real terms, still about a fourth below what they were before World War II, notwithstanding a 40 per cent increase in the population, the growth

¹⁶ S.E. Harris, "Can We Prosper Without Arms?", New York Times Magazine, November 8, 1959, pp. 20-24.

¹⁷ J. Henry, Culture Against Man (New York: Random House, 1963), p. 102.

¹⁸ See A. Maddison, Economic Growth in the West (London: George Allen & Unwin Ltd., 1964), pp. 18-19.

of urbanization and the complex demands made on governments in the modern world."¹⁹ Excessive conservatism in fiscal policy has not, however, been apparent just in Congress. In four out of seven years between 1954 and 1960 inclusively, the Federal Government itself, Benoit has stated:

took more purchasing power away from private consumers and businesses than it restored to them by its own expenditure and benefit programs. . . . With the resultant deflationary impact, unemployment more than doubled, and the industrial output rose only eighteen per cent in the period between 1953 and 1960--in marked contrast to the 54 per cent rise in industrial output and the reduction in unemployment achieved in the seven preceding years.²⁰

Since the U.S.A. has not achieved the management of aggregate demand by utilizing an effective battery of fiscal policies, it is not surprising that the public sector required for the stabilization of demand in the American industrial system has been, and continues to be provided by military procurement and defence expenditures. Indeed, the U.S. Arms Control and Disarmament Agency itself has recognized that:

. . . the greatly enlarged public sector (in the economy) since World War II, resulting from heavy defense expenditures, has provided additional protection against depressions, since this sector is not responsive to contraction in the private sector and provides a sort of buffer or balance wheel in the economy.²¹

Money for arms procurement is obtained by a process that has almost become routine. Not only has Congress largely lost the means of control,

¹⁹ Benoit, op. cit., pp. 146-147.

²⁰ Ibid., p. 146.

²¹ United States Arms Control and Disarmament Agency, Economic Impacts of Disarmament, Publication 2, Economic Series 1 (Washington, D.C.: U.S. Government Printing Office, 1962), p. 13.

it has also lost the will. Given the fact that most Congressmen feel that if U.S. military leaders are wrong and Congress listens to their advice, it will only cost the U.S. some money, but if the military experts are right and their requests are not heeded, it will cost Americans their country;²² it is not surprising that this should be so. Indeed, the position is such today that it would require far more effort to reduce military spending than to increase it. Senator Gaylord Nelson expressed the situation well when he stated that:

. . . an established tradition . . . holds that a bill to spend billions of dollars for the machinery of war must be rushed through the House and the Senate in a matter of hours, while a treaty to advance the cause of peace, or a program to help the underdeveloped nations . . . guarantee the rights of all our citizens, or . . . to advance the interests of the poor must be scrutinized and debated and amended and thrashed over for weeks and perhaps months.²³

²² Congressional Record, August 2, 1963, CIX, 88th Congress, 1st Session, p. 13987.

²³ Congressional Record, February 26, 1964, CX, 88th Congress, 2nd Session, p. 3820.

CHAPTER V

THE COLD WAR: SYSTEM NEED OF U.S. SOCIETY?

Undoubtedly, the method of achieving economic stabilization by defence expenditures described in the previous chapter would require an image of the world to both justify and rationalize its use. Since its onset the Cold War has supplied that image, and anti-Communism has become endemic in American life, and perhaps the major 'cause' for many U.S. citizens.¹

In the 1950's the power of the Cold War image in the U.S.A. reached something of a zenith. The then Secretary of State, John Foster Dulles, saw its acceptance, not only as an exercise in social belief, but as a test of religious ardour and moral stamina. In the early 1960's even John F. Kennedy showed himself as not averse to supporting such imagery. Concluding a Senate speech on February 29, 1960, he stated:

I urge that this Congress, before the President departs for the summit, demonstrate conclusively that we are removing those doubts (about the missile gap and like weaponry) and that we are prepared to pay the full cost necessary to ensure peace. Let us remember what Gibbon said of the Romans: 'They kept the peace--by a constant preparation for war; and by making clear to their neighbours

¹Obenhaus, op. cit., p. 145.

that they are as little disposed to offer as to endure injury.²

That this image owes its existence only to the needs of the industrial system is not, however, suggested for a moment; indeed, 'free world' perceptions of the revolutionary and imperialistic acts and aspirations of Communism undoubtedly were its historical source.³ Nevertheless, the fact remains that the interests of the industrial system in conjunction with those of the military bureaucracy have, since the end of World War II, served to ensure that anti-Communism and the Cold War have been institutionalized as the American national condition.⁴ For the military⁴ and industrial system respectively, U.S. involvement in World War II was a bonanza beyond all expectation. After the war the vested interests of industry and the military coincided to ensure that high expenditures for military procurement were maintained to give continued life and breath to the very being of the military-industrial

² Congressional Record, February 29, 1960, CVI, 86th Congress, 2nd Session, p. 3804. In fairness it should be added that Kennedy in this and other speeches has called for active steps toward disarmament and for something comparable to a RAND Corporation for peace.

³ See R. Neibuhr, "The Social Myths in the 'Cold War'", in Image and Reality in World Politics, ed. by J.C. Farrell and A.P. Smith (New York: Columbia University Press, 1967), pp. 40-56, *passim*.

⁴ C.W. Mills has shown that it is only since the attack on Pearl Harbour (December 8 1941) that those who command the U.S. military establishment "have come to possess considerable autonomy, . . . have stepped out of their military roles into other higher realms of American life . . . have influenced by advice, information and judgement the decisions of men powerful in economic and political matters, . . . and . . . have attempted to sway the opinions of the underlying population, lending the weight of their authority, openly as well as behind closed doors, to controversial policies. See C.W. Mills, The Power Elite, Galaxy Books (New York: Oxford University Press, 1959), p. 198. For further expansion of this point, see also pp. 190 and 212.

complex. With inconceivable millions of dollars at their disposal this combine possessed a lever on the entire economy of the nation. "Economic (and political) self interest became chained to the maintenance of the military budget at unprecedented levels--a performance that could be justified and maintained only by an ever present menace."⁵

For its part the military, which was campaigning for Universal Military Training in the years immediately preceding World War II, was so efficient in alarming the American public that World War III, against the Russians, was virtually upon them, that the eminently conservative U.S. News and World Report of May 14, 1948, noted that:

President Truman is somewhat disturbed by the way the idea of imminent war with Russia hangs on the country even after the official line has changed from war scares to more emphasis upon the prospect of peace.

Gen. Omar Bradley, Army Chief of Staff (he had succeeded Eisenhower), was out of step with the Government's new policy when he expressed the opinion that war prospects had risen in recent days. Both at the White House and in the State Department there is a backing away from the attitude now that the Marshall Plan is law and Italy has decided to stay with the West.

War scares, encouraged by high officials only a few weeks ago, have so alarmed the 144 million U.S. public that top planners are having to struggle hard to keep Congress from pouring more money into national defence than the Joint Chiefs of Staff regard as wise or necessary. It is proving more difficult to turn off than to turn on a war psychology.⁶

Indeed it would be true to say that the "war psychology" noted

⁵F.J. Cook, "The Warfare State", in *The Changing Cold War*, Vol. 351 of the *Annals of The American Academy of Political and Social Science*, ed. by D.F. Fleming (Philadelphia: The American Academy of Political and Social Science, 1964), p. 104.

⁶U.S. News and World Report, May 14, 1948, as cited in J.F. Cook, *The Warfare State* (New York: The MacMillan Company, 1962), pp. 109-110.

by the U.S. News and World Report was never turned off. By its solemn and expert warnings of ever present danger which still continue to the present day, the military has succeeded in soliciting belief in a new way of life for American society. Once this belief had been won, once a permanent "war psychology" had been established, it was only a matter of time before industry, finance and government became instrumental in tying the self interest of millions of Americans to the Cold War. To be sure, this process was not slow in making itself apparent. In October 1949, Professor Summner Slichter, a Harvard economist, was warmly received when he addressed a bankers' convention and asserted that as long as we have a Cold War, the expectation of a severe depression was hardly credible. Slichter explained that:

It (the Cold War) increases the demand for goods, helps sustain a high level of employment, accelerates technological progress and thus helps the country to raise its standard of living. . . . So we may thank the Russians for helping make capitalism in the United States work better than ever.⁷

By 1950 David Lawrence of the U.S. News and World Report was able to inform his readers that:

Government planners figure they have found the magic formula for almost endless good times. They are now beginning to wonder if there may not be something to perpetual motion after all. Cold War is the catalyst, Cold War is an automatic pump-primer. Turn a spigot, and the public clamours for more arms spending. Turn another, the clamour ceases. . . . Cold War demands, if fully exploited are almost endless.⁸

⁷New York Herald Tribune, October 26, 1949.

⁸U.S. News and World Report, May 14, 1950, as cited in Cook, op. cit., p. 171.

By 1952, Korea had "boosted military spending to new plateaus and there was exultation in business and administration circles that 'perpetual good times' had been guaranteed, . . . the Democrats even tried to run on the slogan, 'You never had it so good'."⁹ In May 1960, when the breakdown of the Eisenhower-Khruschev summit in Paris was thought by many to be a tragedy, Wall Street welcomed its collapse with unrestrained joy.

SUMMIT FAILURE A MARKET TONIC, was the headline on first page of the New York Times, Financial section (May 22 1960). BULLISHNESS REVIVED was the subhead, and the caption explained FIREWORKS IN PARIS SHIFT SPOTLIGHT TO SHARES OF MILITARY SUPPLIERS. On the other side of the country, appealing to a humbler audience, the Los Angeles Mirror-News carried a roaring full page advertisement for a technical school: THE SUMMIT HAS FAILED--WHAT DOES THIS MEAN TO YOU? TREMENDOUS UPSURGE IN ELECTRONICS. BILLION DOLLAR PAYROLL. 110,000 EMPLOYEE INDUSTRY IN SO. CALIF. BOOMING!¹⁰

A year later, the picture was unchanged, simply intensified. Newly elected President Kennedy promptly embarked on a programme of military pump-priming to relieve a recession,¹¹ and his confrontation with Khruschev at Vienna was followed by calling the nation to a new state of armed preparedness.

By 1968 the relationship of the defence industry to the U.S. politico-economic environment was so apparent that S.F. Downer, Vice

⁹ F.J. Cook, "The Warfare State", in The Changing Cold War, Vol. 351, The Annals of the American Academy of Political and Social Science, p. 104.

¹⁰ Editorial, The Nation, June 4, 1960, Vol. CXC, No. 23, p. 482.

¹¹ See U.S. Department of Commerce, Survey of Current Business, February, 1962 (Washington, D.C.: Government Printing Office), p. 7.

President of L-T-V Aerospace Corporation, was able to state that:

This (appeal to the defence of the home) is one of the greatest appeals the politicians have in adjusting the system. If you're the President and you need a control factor in the economy, and you need to sell this factor, you can't sell Harlem and Watts, but you can sell self-preservation, a new environment. We're going to increase defence budgets so long as those bastards in Russia are ahead of us.¹²

Commenting on Downer's words, Ralph Lapp was prompted to say that "(t)here is something utterly chilling in this quotation for it signifies that American corporations are not merely providing essential services to the Federal Government, but are going beyond this role and becoming advocates, indeed, promoters, of the Cold War."¹³

But what exactly has been the impact of this war psychosis on American society in general? Vast sections of the U.S. economy have become almost entirely dependent upon the military budget. As of 1962 some two-thirds to three-quarters of all American scientists and engineers were engaged in military occupations. Approximately half the production of the U.S. electrical industry and sixty-one per cent of American ship building was on military order. Similarly, fifty-eight per cent of the research and development work in U.S. industry was primarily Federally sponsored military research.¹⁴ By 1967 the proportion of

¹²As cited in R.E. Lapp, "The Military-Industrial Complex: 1969", in The Military-Industrial Complex and United States Foreign Policy, ed. by O.L. Carey (Pullman: Washington State University Press, 1969), p. 42.

¹³Lapp, ibid.

¹⁴S. Melman, "Economic Alternatives to Arms Prosperity", in The Changing Cold War, Vol. 351, The Annals of The American Academy of Political and Social Science, p. 123.

defence generated employment, though obviously reflecting the new defence needs of the time, had not significantly changed. Employment was, as one would expect, very high in ordnance and missiles (64.8 per cent), aircraft and parts (59.1 per cent), radio, television, and communications equipment (33.3 per cent), electronic components and accessories (26.1 per cent), machine shop products (23.3 per cent), and ship building and other transportation equipment (22.5 per cent).¹⁵ In 1968 defence generated employment, not including the figures of the National Aeronautics and Space Administration and other defence related organizations, stood at some seven and a half million persons, or 10.3 per cent of the total work force.¹⁶

From as early as 1959 the dependence of some areas and regions of the U.S.A. on military expenditures has been very marked. Even then "missile and aircraft production provided at least 82 percent of the manufacturing employment in San Diego, 72 percent in Wichita, 53 percent in Seattle and 27 percent in the Los Angeles-Long Beach area."¹⁷ Defence procurement contracts alone accounted for from twenty to thirty

¹⁵R.P. Oliver, "The Employment Effect of Defense Expenditures", Monthly Labour Review, XC (September, 1967), 10-11. As cited by S.P. Huntington, "Vested Interests and Public Interest", in The Military-Industrial Complex and United States Foreign Policy, ed. by O.L. Carey, p. 10.

¹⁶Bureau of the Census, Statistical Abstract of the U.S.A., 1968, 89th edition (Washington, D.C.: Government Printing Office), p. 251.

¹⁷E. Benoit, "Report on Economic Impacts of Disarmament", in Armament and Disarmament: The Continuing Dispute, ed. by W.R. Fisher and R.D. Burns (Belmont: Wadsworth Publishing Co., Inc., 1964), p. 332.

per cent of all the manufacturing employment in the states of Kansas, Washington, New Mexico, California, and Connecticut. In Alaska, Hawaii, the District of Columbia, and Virginia, ten to twenty-six per cent of their total income was supplied by Department of Defense military pay and allowances or civilian wages and salaries.¹⁸ For the nation as a whole the U.S. Arms Control and Disarmament Agency in 1962 estimated that, at that time, between one-quarter and one-third of all U.S. economic activity depended on military spending, and that with continued expansion in the military budget, "this figure may in time reach a staggering 50 per cent."¹⁹

That the Cold War has become at one and the same time America's national purpose and economic stabilizer is apparent from the foregoing analysis. Precisely because the Cold War has served such a dual role and has effected the synthesis of the average U.S. citizen's stake in democracy, and the total identification of his interests with the industrial and economic life of his country so completely; this thesis argues that the Cold War has become a systemic need for U.S. society. Having also functioned as the exclusive mode of expression of American political leadership in the post World War II period, it is hardly surprising that little or nothing has been done to alter the character of this Cold War concensus. The Cold War has succeeded in institutionalizing itself to such a degree that the Communist menace has served to

¹⁸Ibid., p. 347.

¹⁹F.J. Cook, "The Warfare State", in The Annals of the American Academy of Political and Social Science, Vol. 351, pp. 104-105.

justify resistance to all kinds of social innovation.

Nowhere is this Cold War stimulated resistance more apparent and more significant for the systemization of the Cold War than in regard to America's unwillingness to embark on substantial conversion to a civilian economy. Indeed, although most economists are confident that the economics of disarmament, that is, the continuation of U.S. prosperity without massive and continuing arms spending, is in the long run a manageable problem; Cold War imagery has so affected the labour unions and the unemployed that they "have come to think of defence contracts as the only way of bringing (about) new jobs" (emphasis added).²⁰ Recently, Senator J.W. Fulbright perceptively analysed this problem when he stated in March, 1969 that:

It is not an enthusiasm for war but simple economic self-interest that has drawn millions of workers, their labour unions and their elected representatives into the military industrial complex. For all of them the antiballistic missile means prosperity not war. For the industrialist it means higher profits not war; for the worker new jobs and the prospect of higher wages; for the politician a new installation or defense order with which to ingratiate himself with his constituents. These benefits once obtained are not easily parted with.²¹

The problem with most business enterprises presently engaged in direct or subsidiary forms of arms production is not that they are fearful of an economic retooling, or even that they fear their survival possibilities in a peace time economy (though undoubtedly some do), but

²⁰ Senator J. Clark, as cited in J. Duscha, "Arms and the Big Money Men", Harper's Magazine, March, 1964, pp. 39-47.

²¹ As cited in Lapp, op. cit., p. 42.

simply that little thought has yet been given to remobilization of the economy in a non-military direction. Indeed, as Jules Henry has asserted the Cold War image ". . . of the Soviet Union as a deadly adversary that at any moment may destroy us" has made "real disarmament unlikely; and suggests that instead of getting rid of our arms we will merely rest on them."²² Further, peaceful production is not yet a felt need as the syndrome of high wages and solid profits has essentially remained unbroken in the American economy ever since 1939, when the nation first went on a partial defence mobilization.

Despite the fact that defence expenditures, expressed as a percentage of Gross National Product, have fluctuated considerably since the end of World War II;²³ most military contractors yet "have no idea . . . of how to plan for a sharp reduction in defence spending. A few companies are confident they would be able to make a smooth transition to civilian business. Fewer still report that they have actually done some long range planning in this area."²⁴ The general concensus among military producers and contractors is that no significant arms reduction will take place, and that if it did, the problem would be met pragmatically--meaning through yet further Government help. There is, in short, a profound inability of defence contractors, Lockheed Aircraft,

²²Henry, op. cit., p. 110.

²³See Appendix II.

²⁴P. Shabecoff and J. Lelyveld, "Defense Industry Lacks Plans for Civilian Production", New York Times, August 16, 1963, pp. 31, 37.

Boeing, General Dynamics and North American Aviation, to mention only a few, to take seriously their own faith in the private enterprise system. What they have become used to is Government subsidization of private profits, something radically different from the confrontation of buyers and sellers in a symbolic market place. The marketing skills necessary to compete in a private enterprise economy have been lost by the industrial giants, who have come to rely on a sales force of retired generals to deal with their firms' only customer--the Government.²⁵

Indeed, it would not be too much of an exaggeration to say that the profound social and economic effects of the Cold War have contributed, as Seymour Melman has suggested, to the "depletion" of American society.²⁶ The Cold War, although it has served to stimulate the U.S. economy in the short run to an unprecedented consumer led prosperity, has had its cost in terms of a critically low rate of economic growth.²⁷

²⁵ See M. Pilisuk and T. Hayden, "Is There a Military Industrial Complex Which Prevents Peace?: Concensus and Countervailing Power in Pluralistic Systems", The Journal of Social Issues, XXI (July, 1965), p. 95.

²⁶ S. Melman, Our Depleted Society (New York: Holt, Rinehart and Winston, 1965), *passim*. In reference to industry, Melman uses the term "depletion" to explain the lack of a serious attempt in the U.S. in recent years to discover and embody new possibilities for productivity improvement and cost reduction. Although the financial position of such industries looks sound, this has been maintained only by overseas production and investment. The common feature of all depleted industries is less work in the United States. See pp. 48-69 especially.

²⁷ Between 1950 and 1967 U.S. Gross Domestic Product in real terms increased at the rate of 4.2 per cent per annum. See United Nations World Economic Survey, 1961, Vol. 2, p. 63; and 1968, p. 7.

By national concentration on the production of more weapons than can conceivably be used, by giving priority to talent and capital in the military sphere, many U.S. civilian industries have been allowed to reach virtually "a terminal condition in terms of economic and technical competence."²⁸

The significance of this problem for continued U.S. reliance on, or systemization of, the Cold War "arises from the fact that the depletion of American industry has not been a spotty, random affair, relegated to a few firms. Instead, the process of depletion has been concentrated in a class of machinery-producing industries (particularly in the machine tool and scientific equipment industries) which lie at the base of any modern industrial system."²⁹ The fact that so much talent and capital has been concentrated in Cold War perpetuating military or pseudo-military production and research, coupled with the corresponding depletion of existing civilian industry, makes the prospect of the U.S. bringing an end to the Cold War very slim. This is so simply because of the not unfounded fear that massive unemployment would follow in the event of conversion.

The above point is clarified when we consider that, although theoretically the conversion of military expenditures to other purposes would appear possible,³⁰ there does exist, as this discussion has shown,

²⁸ Melman, op. cit., p. 11.

²⁹ Ibid., p. 69.

³⁰ See K.E. Boulding, "The Domestic Implications of Arms Control", Daedalus, 89 (Fall, 1960), pp. 846-859, *passim*.

certain social and economic rigidities to qualify that conviction. The most serious of these rigidities is the fact that in the Cold War era modern war production has created unprecedented occupational and geographical specializations. To date, most discussions of the problem of conversion have been characterised by an unwillingness to recognize that the Cold War has caused special conversion problems to exist. Such studies are, as one critic has tellingly pointed out, no better than useless in blindly assuming that:

. . . nothing in the arms economy--neither its size, nor its geographical concentration, nor its highly specialized nature, nor the peculiarities of its market, nor the special nature of much of its labour force--endows it with any uniqueness when the necessary time of adjustment comes.³¹

The most commonly held theory of conversion, simply that general economic re-investment, aided by Government assistance and controls, would absorb the greater part of the productive capabilities that would be released, does not itself augur well for the U.S.A.'s rejection of the Cold War as a way of life. Not only are there structural problems in its implementation; such as the traditional opposition to U.S. non-military expenditure stabilization policies, the existence of uncertainty as to whether a similar degree of stability would exist if armaments were reduced and public works instituted, and the sheer anathema of U.S. society to planning of a 'socialist' nature, but also the mechanisms proposed for controlling the transition to an arms free economy, are

³¹S.N. Rosen, "Disarmament and the Economy", War/Peace Report (March, 1966), 13.

limited. Although fiscal tools--budget deficits or surpluses, manipulation of interest rates and economic incentives of all descriptions are of value in a normal cyclical economy, where they provide leverage to accelerate or break an existing trend--there is a limit to the power of these devices to influence fundamental economic conditions.³² "They can provide new incentives in the economy, but they cannot in themselves transform the production of a billion dollar's worth of missiles a year to the equivalent in food, clothing, prefabricated houses, or television sets. At bottom, they reflect the economy; they do not motivate it."³³ Indeed, for successful industrial conversion to take place in the face of disarmament, there would be required, in addition to fiscal and monetary policies, a degree of centralization of controls so great that U.S. society, pre-occupied as it is with the fear of creeping socialism, would be unwilling to accept them.

If vested interests and economic considerations are of paramount importance in arguing that the dependency of U.S. society on the Cold War borders on systemic need; socio-political factors also are not insignificant in this regard. Though these non-economic factors are a force in and of themselves in effecting the systemization of the Cold War, they unwittingly served to underline and intensify the basic economic considerations making for that phenomenon. Perhaps the most ambiguous, but nevertheless one of the most important of these socio-political considerations is the adherence of the vast majority of U.S. society to the singular national purpose, or ideology, of anti-Communism.

³² See Pilisuk and Hayden, op. cit., pp. 94-97.

³³ Ibid., p. 21.

Americans have found the Communist menace ever useful in providing "those thwartings and frustrations and denials that . . . give life meaning . . .",³⁴ and in bringing the simplicity of a balance sheet into the process of deciding on a role in international relations.

That this dedication to a singular purpose "carries within itself a paralyzing and narcotizing effect"³⁵ on the possibility of other purposes being discovered is no less evident for countries than it is for individuals. Indeed, the American relationship with the U.S.S.R., one akin to the sibling rivalry "of a big brother who is obsessed with the fear that his little brother will overtake him,"³⁶ keeps the U.S.A., the older brother, singularly fixed in its attention to the Cold War. If this were not enough, the American right wing, by adding its rhetoric to the underlying socio-political problems, has ensured that the Cold War will continue. "A nostalgic reminder" of the American Confederate past, "it asks for a policy of victory (in the Cold War) not of temporizing," and charges successive administrations with having pursued "a no-win policy". The strength of this rhetoric is such that administrations, rather than try "to exhibit the complexity of affairs to the public", argue that they do indeed "have a 'win' policy. . . ." To

³⁴D. Riesman, Abundance for What? And Other Essays (New York: Doubleday & Company, Inc., 1964), p. 27.

³⁵I.L. Horowitz, "Non-Economic Factors in the Institutionalization of the Cold War", in The Annals of the American Academy of Political and Social Science, Vol. 351, p. 115.

³⁶Riesman, op. cit., p. 41.

³⁷Ibid., p. 54.

change this rhetoric itself, let alone begin to change America's national purpose, would be extremely difficult.

Another rigidity making for the systemization of the Cold War in the U.S.A. is to be found in the irrational but popularly held American belief, despite full knowledge of the reach of intercontinental ballistic missiles, that the U.S.A. is somehow safe and remote from danger. Indeed, Americans are still apt to regard war as something that is fought overseas.³⁸ Furthermore, whereas war in other countries has left a legacy of fear or fatalism, there has been little comparable anti-war feeling in the U.S.A. until recently. The frightful catastrophe of the American Civil War having left a romantic image of itself in both the U.S. north and south led American reaction to World War I into a rejection of Europe, rather than a rejection of war itself. Again, whatever suffering World War II involved for a few Americans was more than matched by the joy of millions of their compatriots, because the war had brought the Great Depression to an end. The recognition of why Americans do not seem to fear war leads us further towards understanding the subtlety of pressures making for the systemization of the U.S.A.'s Cold War commitment. David Riesman has provided perhaps the most penetrating analysis of this aspect of American national character when he stated that:

Perhaps, having escaped the bombing and much of the suffering of the Second World War, many Americans have never established their courage in their own eyes. To recognize and admit the enormous dangers that grow every day the cold war continues would feel like

³⁸ Ibid., p. 33.

weakness to these people; it would seem but another step leading to a retreat from the heroic stand against nature, a stand that makes sense when, in order to survive physically, man must fight, but which now becomes merely a 'posture'--a term that is increasingly and symptomatically coming into use in describing American policy. . . .³⁹

Given that in the U.S.A. such feelings do exist, and war and the preparation for war is seen as a condition of national health and not as a national malady, it is not difficult to see just how the Cold War fulfills a very real need in U.S. society. So firmly have Americans come to be tied, in their style of life, in their economic endeavour, and in their public patriotism to the Cold War that it has become, as Roger Hagan has so aptly said ". . . Babbitry gone mad. . . ."⁴⁰ Indeed, it would appear, pessimistic though this conclusion may seem, that Cold War has been so systematized by U.S. society that even a minimum reversal of that commitment would be extremely difficult, and the prospects for the success of a maximum reversal of it would appear to be well nigh impossible.

³⁹ Ibid., p. 36.

⁴⁰ Roger Hagan, "Reciprocal Hardening", Council for Correspondence Newsletter, XXVI (May, 1963), 7. As cited in Horowitz, op. cit., p. 118.

CONCLUSION

Having reviewed and given due emphasis to the major economic actions and determinants of U.S. foreign policy that have made, in part, for the creation and perpetuation of the Cold War, it would appear exceedingly myopic if, in conclusion, this thesis should not attempt an evaluation of the long term effects of economic factors on U.S. foreign policy.

Although the terms of reference of this thesis (to review foreign economic policy in the early Cold War period) somewhat restricts a broad evaluation of the part foreign economic policy has played in U.S. foreign policy in the total period since 1945, nevertheless, it is possible even from the limited discussion of U.S. foreign economic policy that has been presented here to arrive at some general conclusions about its use. Most importantly, the U.S.A.'s extensive utilization of such policy, stimulated as it was, not only by the desire to stop Communism in its tracks, but also to ensure American economic prosperity and expansion, has experienced the paradox of success in failure. Without a doubt, U.S. foreign economic policies in the early Cold War period provided the strategy and tactics that enabled Americans to establish a new form of empire (no less empire because it was unconsciously achieved and did not involve territorial conquest) when its less subtle eighteenth and

nineteenth century predecessors were being administered their coup de grâce by anti-colonial nationalism. Yet the same U.S. foreign economic policies, designed as we have seen to stabilize the world in a pro-American equilibrium, to bring about the collapse of the Soviet Union, and in recent times to bolster the East-West status quo, have failed dismally. The Soviet Union has neither surrendered, collapsed, or embarked on an effort to remold itself in the image of Western liberalism. Now, countries so eager in the early post war years to accept American assistance, friendship, even policies, have become increasingly hostile towards the American Weltanschauung. This is not just because these countries fear neo-colonialism, but because the U.S.A., in basing its assistance to such nations far too often, if not exclusively, in terms of anti-Communist aid and counter-revolutionary objectives, has further added to the perpetuation of the Cold War by the use of the very policies ostensibly designed to bring about its end.

Similarly, in allowing the prosperity of the American industrial system to become identified with the production of arms to an unprecedented degree, U.S. decision makers have helped create an industrial system which is itself a source of foreign policy imagery making for the continuation of the U.S.A.'s commitment to the Cold War. As we have seen "the industrial system helps win belief for the image of implacable conflict . . . that justifies its need. Belief being won, the arms competition seems normal, natural and inevitable as do the actions based upon it."¹ It should be stressed, however, that the

¹Galbraith, op. cit., p. 332.

strength of the industrial system's lobby lies not in its open advocacy of the Cold War, but in its being the source of attitudes and estimates on disarmament action and its effects. These estimates are the working materials of those who make U.S. foreign policy and those who are responsible for national defence. Far more effectively than any open advocacy, such estimates can, and do, reflect the needs of the industrial system.

It is pertinent to stress, also, that while economic factors have entered into the conduct and formulation of postwar U.S. foreign policy in a conscious and rationally applied manner, there is no evidence to suggest that this was so because of any 'conspiracy' on the part of the U.S. financial and industrial elite. Though financiers and industrialists have held leading positions in U.S. administrations since the war; men such as James Forrestal, former President of Dillon Read and Company, Averell Harriman, of Brown Bros. Harriman and Company, Robert A. Lovett, of the same firm, C.E. Wilson, of General Electric, and Robert MacNamara, of Ford, to name but a few, have risen to such positions because they have had the requisite managerial talent to offer. Business values have been brought into the conduct of U.S. foreign affairs, not because government has become the puppet of vested elite interests, but because the condition of Cold War has made for more subtlety in international affairs and has made necessary a high degree of integration of "military, political and economic concepts of strategy. . . ."²

²Pilisuk and Hayden, op. cit., p. 86.

Further, it should be understood that the U.S. industrial system has not become identified with the weapons competition by preference, or because it is inherently sanguine, but because government itself has found this to be the area where the largest amount of money to support economic planning was available with the fewest questions asked. Since defence has always been a public want supplied by the public sector, government underwriting in this area has suffered from the fewest overtones of socialism. What makes for the continuation of Cold War attitudes in U.S. foreign policy is not only public and private vested interests, but as was intimated earlier, the absence of a countervailing force for peace. Moreover, the requirements for peace are, in significant measure, inconsistent with constraints set by the more enduring convergencies among power structures in the U.S.A. The same is true whether one speaks of the allocation of material or intellectual resources. Both are geared to the protection of existing premises, rather than to seeking avenues for change. What this means for U.S. foreign policy is not that war, because of the inherent instability of the arms race, is inevitable, or that changes in U.S. foreign policy cannot be brought about, but that the American political military and economic system operates within certain built-in stabilizers that would restrict such change. If there is to be peace as opposed to détente or temporary absence of war, marked foreign policy changes will be needed, that much is clear. Whether U.S. foreign policy is capable of effecting these changes without U.S. society first undergoing a major economic reorganization is the question that presents itself as a direct result of the analysis undertaken in this thesis.

APPENDIX I

U.S. GOVERNMENT FOREIGN GRANTS AND CREDITS: 1945 to 1968* (includes military aid)

	Total in millions of \$
July 1945 - December 1961	82,865
1962	4,535
1963	5,040
1964	4,916
1965	5,035
1966	4,424
1967	5,111
1968 (prel.)	4,755

*Bureau of the Census, Statistical Abstract of the U.S.A.
1968, 89th edition (Washington, D.C.: Government Printing
Office), p. 788.

APPENDIX II
THE EVOLUTION OF THE DEFENSE SECTOR*

	National Defense Spending (in 1958, \$ millions)	As % of GNP
1944	162.4	41.9
1945	138.4	35.5
1946	25.7	8.9
1947	13.9	4.9
1948	15.3	4.5
1949	18.2	5.3
1950	19.3	5.0
1951	45.3	10.3
1952	56.5	13.2
1953	59.8	13.5
1954	49.3	11.3
1955	44.4	9.8
1956	43.9	9.6
1957	46.1	10.0
1958	45.9	10.3
1959	45.0	9.5
1960	43.1	8.9
1961	45.4	9.2
1962	48.8	9.2
1963	47.0	8.6
1964	44.6	7.9
1965	43.4	7.3
1966	51.0	8.1
1967	59.7	9.2
1968	62.5	9.2
1969	Not available	
1970	Not available	

*S.P. Huntington, "Vested Interests and Public Interest", in The Military-Industrial Complex and United States Foreign Policy, ed. by O.L. Carey (Pullman: Washington State University Press, 1969), p. 6.

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